ITEM 6. SELECTED FINANCIAL DATA

FIVE YEAR FINANCIAL SUMMARY

(In millions except per share data)

	Year Ended September 30, 2010	2009	2008	2007	2006
Statement of Earnings Data					
Net sales (a)	$ 4,048.5	$ 3,891.9	$ 2,824.4	$ 2,233.4	$ 1,850.2
Cost of goods sold	(2,971.6)	(2,834.1)	(2,318.1)	(1,819.2)	(1,497.2)
Gross profit	1,076.9	1,057.8	506.3	414.2	353.0
Selling, general and administrative expenses	(528.1)	(564.8)	(297.8)	(227.8)	(211.5)
Amortization of intangible assets	(49.3)	(41.8)	(29.2)	(23.7)	(13.4)
Impairment of intangible assets (b)	(39.9)	—	—	—	—
Other operating expenses, net (c)	(37.7)	(2.9)	(3.1)	(2.2)	(1.6)
Operating Profit	421.9	448.3	176.2	160.5	126.5
Interest expense, net	(107.8)	(99.0)	(54.6)	(42.3)	(28.1)
Gain (loss) on forward sale contracts (d)	—	17.6	111.8	(87.7)	(9.8)
Gain on sale of securities (e)	—	70.6	7.1	—	2.6
Earnings before income taxes and equity earnings	314.1	437.5	240.5	30.5	91.2
Income taxes	(105.3)	(156.9)	(86.7)	(7.5)	(29.9)
Equity in earnings of Vail Resorts, Inc., net of related deferred income taxes (e)	—	9.8	14.0	8.9	7.0
Net earnings	$ 208.8	$ 290.4	$ 167.8	$ 31.9	$ 68.3
Earnings per share:					
Basic	$ 3.79	$ 5.16	$ 5.51	$ 1.20	$ 2.46
Diluted	$ 3.74	$ 5.09	$ 5.38	$ 1.17	$ 2.41
Weighted average shares outstanding:					
Basic	54.9	56.2	30.3	26.4	27.7
Diluted	55.6	57.0	31.1	27.1	28.2
Balance Sheet Data					
Cash and cash equivalents	$ 29.3	$ 282.8	$ 14.1	$ 9.9	$ 19.1
Working capital (excl. cash and cash equivalents)	220.6	192.4	241.8	165.3	170.3
Total assets	6,804.9	5,452.2	5,343.9	1,853.1	1,507.5
Long-term debt	2,464.9	1,611.4	1,668.8	763.6	552.6
Other long-term liabilities	883.7	656.2	871.7	382.6	281.5
Shareholders' equity	2,829.2	2,705.6	2,411.5	483.4	476.4
Other Data					
Cash provided (used) by:					
Operating activities	$ 301.9	$ 326.7	$ 132.8	$ 217.6	$ 55.2
Investing activities	(1,438.4)	(90.2)	(71.0)	(387.5)	(164.6)
Financing activities	881.5	29.9	(56.8)	160.0	122.3
Depreciation and amortization	166.8	144.7	99.5	82.4	66.8

(a) In 2010, Ralcorp acquired J.T. Bakeries, North American Baking, Sepp's Gourmet Foods, and American Italian Pasta Company. In 2009, Ralcorp acquired Harvest Manor Farms, Inc. In 2008, Ralcorp acquired Post Foods. In 2007, Ralcorp acquired Cottage Bakery Inc., Bloomfield Bakers, and Pastries Plus of Utah, Inc. In 2006, Ralcorp acquired Western Waffles Ltd. and Parco Foods L.L.C. For more information about the 2010, 2009, and 2008 acquisitions, see Note 3 to the financial statements in Item 8.

(b) For information about the impairment of intangible assets see Note 1 and Note 4 to the financial statements in Item 8.

(c) In fiscal 2010, Ralcorp incurred professional services fees and severace costs related to fiscal 2010 acquisitions of $21.5. In addition, Ralcorp accrued $7.5 related to the potential settlement of legal claims. For more information on acquisition-related costs and provision for legal settlement, see Note 3 and Note 16 to the financial statements in Item 8.

(d) For information about the gain/loss on forward sale contracts, see Note 7 to the financial statements in Item 8.

(e) During fiscal 2009, Ralcorp sold 7,085,706 of its shares of Vail Resorts for a total of $211.9. The shares had a carrying value of $141.3, resulting in a $70.6 gain. During August and September 2008, Ralcorp sold 368,700 of Vail shares for a total of $13.7. The shares had a carrying value of $6.6, resulting in a $7.1 gain. In March 2006, Ralcorp sold 100,000 of its Vail shares for a total of $3.8. The shares had a carrying value of $1.2, resulting in a $2.6 gain. The Company held no shares of Vail Resorts at September 30, 2009.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and capital resources of Ralcorp Holdings, Inc. This discussion should be read in conjunction with the financial statements under Item 8, especially the segment information in Note 20, and the "Cautionary Statement on Forward-Looking Statements" on page 2. The terms "we," "our," "Company," and "Ralcorp" as used herein refer to Ralcorp Holdings, Inc. and its consolidated subsidiaries. Sales information for the "base business", as reported herein, has been adjusted to exclude estimated current year sales attributable to recently acquired businesses for the period corresponding to the pre-acquisition period of the comparative period of the prior year. For each acquired business, the excluded period starts at the beginning of the respective quarter or year-to-date period and ends one year after the acquisition date. We have included financial measures for our base businesses (such as sales growth) because they provide useful and comparable trend information regarding the results of our businesses without the effects of the timing of acquisitions.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 2 in Item 8 for a discussion regarding recently issued accounting standards.

RESULTS OF OPERATIONS

As discussed in more detail below, our results for the past three years were significantly affected by the acquisitions of Post Foods in 2008, American Italian Pasta Company (AIPC) in 2010, and other businesses in 2009 and 2010, as well as items related to our former investment in Vail Resorts, Inc. The following table summarizes key data (in millions of dollars, except for percentage data as indicated) that we believe are important for you to consider as you read the consolidated results analysis discussions below. In addition, please refer to Note 20 in Item 8 for data regarding net sales and profit contribution by segment.

	Year Ended September 30,				
(dollars in millions, except per share data)	2010	% Change	2009	% Change	2008
Net Sales	$ 4,048.5	4%	$ 3,891.9	38%	$ 2,824.4
Operating Profit	421.9	-6%	448.3	154%	176.2
Net Earnings	208.8	-28%	290.4	73%	167.8
Diluted Earnings per Share	$ 3.74	-27%	$ 5.09	-5%	$ 5.38
Adjusted Diluted Earnings per Share (1)	$ 4.68	9%	$ 4.29	38%	$ 3.12
(1)Adjusted Diluted Earnings per Share	$ 4.68		$ 4.29		$ 3.12
Impairment of intangible assets	(.45)		—		—
Gain on forward sale contracts and sale of securities	—		.99		2.47
Equity in earnings of Vail Resorts, Inc.	—		.17		.45
Merger and integration costs	(.37)		(.35)		(.63)
Provision for legal settlement	(.09)		—		—
Amounts related to plant closures	(.03)		(.01)		(.03)
Diluted Earnings per Share	$ 3.74		$ 5.09		$ 5.38

Summary of 2010 Compared to 2009

Financial results in fiscal 2010 benefitted from single-digit volume and sales gains when compared to fiscal 2009, fueled by acquisitions (including AIPC, acquired in July 2010) and base-business growth. Despite the top line revenue growth, overall net earnings of $208.8 million ($3.74 per diluted share) were down $81.6 million, as several items negatively impacted operating results when compared to 2009. These adjustments include the absence of Vail related gains (included in fiscal 2009 results), the impairment of goodwill and brand trademarks, merger and integration costs, a provision for legal settlement and amounts related to plant closures. Excluding these items, adjusted diluted earnings per share increased 9% to $4.68 as the Company benefited from acquisitions, higher overall base-business volumes, lower raw material costs, fewer number of outstanding shares from the fiscal 2010 share buyback program, and a lower effective tax rate. Partially offsetting these gains were lower net selling prices and higher interest and intangible asset amortization expense associated with acquisitions.

Summary of 2009 Compared to 2008

The Company registered strong revenue and net earnings growth over fiscal 2008, as the Company benefitted from a full year of Post Foods results (acquired in August 2008) and significant gains related to the investment in Vail. Net earnings were $290.4 million, increasing $122.6 million or 73% over 2008. Excluding the impact of Vail earnings, merger and integration costs and plant closures, adjusted diluted earnings per share increased 38% to $4.29. The strong increase was driven by incremental profits from business acquisitions and base-business sales growth, partially offset by higher raw material costs and interest expense.

Net Sales

2010 Compared to 2009

	Year Ended September 30,		
(dollars in millions)	**2010**	**2009**	**% Change**
Base-business Net Sales	$ 3,804.4	$ 3,891.9	-2%
Net sales from recent acquisitions excluded from base-business net sales:			
Harvest Manor Farms (March 20, 2009)	96.1	—	2%
AIPC (July 27, 2010)	101.4	—	3%
Other fiscal 2010 acquisitions	46.6	—	1%
Net Sales	$ 4,048.5	$ 3,891.9	4%

Net sales increased $156.6 million or 4% compared to fiscal 2009 primarily as a result of recent acquisitions, which added $244.1 million of sales in fiscal 2010. Excluding acquisitions, base-business net sales declined 2% as lower net selling prices and higher trade promotion spending on our branded cereal products more than offset a 1% increase in overall volumes. Sales prices in many of our product categories declined as commodity prices fell during the first half of the fiscal year. We further describe these and other factors affecting net sales in the segment discussions below.

2009 Compared to 2008

	Year Ended September 30,		
(dollars in millions)	**2009**	**2008**	**% Change**
Base-business Net Sales	$ 2,937.4	$ 2,824.4	4%
Net sales from recent acquisitions excluded from base-business net sales:			
Harvest Manor Farms (March 20, 2009)	90.5	—	3%
Post Foods (August 4, 2008)	864.0	—	31%
Net Sales	$ 3,891.9	$ 2,824.4	38%

Net sales increased $1,067.5 million or 38% from 2008 to 2009, driven primarily by the timing of business acquisitions including ten additional months of results from Post Foods (acquired in August 2008). Excluding acquisitions, base-business net sales increased 4% as compared to fiscal 2008, with gains attributable to higher selling prices offsetting overall volume declines. Strong volume gains for private-brand ready-to-eat cereals (up 12%) were more than offset by lower volumes in most of our product categories.

Margins

(% of net sales)	Year Ended September 30, 2010	2009	2008
Gross Profit	26.6%	27.2%	17.9%
Selling, general and administrative expenses	-13.0%	-14.5%	-10.5%
Amortization of intangible assets	-1.2%	-1.1%	-1.0%
Impairment of intangible assets	-1.0%	—%	—%
Other operating expenses, net	-.9%	-.1%	-.1%
Operating Profit	10.4%	11.5%	6.2%
Adjusted Operating Profit	12.5%	12.3%	7.4%
Impairment of intangible assets	-1.0%	—%	—%
Merger and integration costs	-.8%	-.8%	-1.1%
Provision for legal settlement	-.2%	—%	—%
Amounts related to plant closures	-.1%	—%	-.1%
Operating Profit	10.4%	11.5%	6.2%

2010 Compared to 2009

Gross profit margins were 26.6% in 2010, down from 27.2% registered in 2009. Gross profit margins were adversely impacted by a negative sales mix (lower sales of higher-margin Branded Cereal Products), higher trade promotion spending for Branded Cereal Products, lower net selling prices and a $3.9 million inventory adjustment related to the AIPC acquisition. Overall raw material costs were lower than fiscal 2009, as prices for key commodities including grain, oils, and peanuts declined during the first half of 2010.

Selling, general and administrative expenses (SG&A) as a percentage of net sales decreased from 14.5% in 2009 to 13.0% in 2010. Key drivers of the reduction include a favorable sales mix (shifting primarily from the Branded Cereals segment to Snacks, Sauces and Spreads and Pasta), lower advertising expense for our cereal businesses (down $33.3 million), significantly lower Post integration costs compared to prior year and favorable foreign exchange rates in Canada. Fiscal 2009 includes $29.5 million of Post transition and integration costs compared to $6.4 million in 2010.

Despite the modest decline in gross profit margin and the improvement in the SG&A percentage, operating profit margins declined from 11.5% in fiscal 2009 to 10.4% in 2010. Fiscal 2010 operating profit was negatively impacted by the impairment of intangible assets (both brand trademarks and goodwill) of $39.9 million, merger and integration costs (including $21.5 million of acquisition-related costs included in "Other operating expenses, net" in fiscal 2010), a provision for legal settlement of $7.5 million, and plant closure costs. Excluding these items, operating margins improved from 12.3% to 12.5%.

2009 Compared to 2008

Gross profit margins increased from 17.9% in 2008 to 27.2% in 2009. The key drivers of the sizable increase include the effect of a full year of higher margin Post Foods results and the timing impact of higher selling prices outpacing rising input costs. Input costs began to level off in 2009 and overall raw materials variances were favorable in the second half of the year. Key input costs include raw materials (ingredients and packaging) and freight (outbound rates and fuel surcharges).

Selling, general, and administrative expenses increased as a percentage of net sales primarily related to the acquisition of Post Foods. Due to the nature of Post Foods' branded business, higher advertising and promotion costs were incurred. Excluding Post Foods, SG&A as a percentage of net sales was 9.0% and 11.0% in 2009 and 2008, respectively. This base-business decrease was primarily the result of selling price increases and gains from mark-to-market adjustments on deferred compensation liabilities in 2009, partially offset by sales volume declines in 2009 and higher amortization of intangibles.

Impairment of Intangible Assets

During fiscal 2010, the Company recorded non-cash impairment charges of $39.9 million related to intangible assets (brand trademarks and goodwill). The Company performs assessments of indefinite life assets (including goodwill and brand trademarks) during the fourth quarter in conjunction with the annual forecasting process. In addition, intangible asset values are reassessed as needed when information becomes available that is believed to impact the fair market value of the asset.

In the fourth quarter of fiscal 2010, a trademark impairment loss of $19.4 million was recognized in the Branded Cereal Products segment related to the Post Shredded Wheat and Grape-Nuts trademarks. The trademark impairment was due to a reallocation of advertising and promotion expenditures to higher-return brands and reductions in anticipated sales-growth rates based on the annual forecasting process completed in the fourth quarter.

In the second quarter of fiscal 2010, a goodwill impairment charge of $20.5 million was recognized in the Snacks, Sauces & Spreads segment related to the Linette chocolate reporting unit. The impairment was based on reduced sales to a major customer, the inability to quickly replace the lost volume (including a decision by a major retailer to delay potential new product offerings), and changes in anticipated ingredient cost trends, leading to shortfalls in earnings before interest, income taxes, depreciation and amortization relative to forecasts.

See further discussion of impairments under "Critical Accounting Policies and Estimates" below.

Merger and Integration Costs

The Company completed four acquisitions during fiscal 2010 and recorded approximately $33.1 million of expenses related to those acquisitions. Those expenses included professional services fees and a one-time finished goods inventory revaluation adjustment related to the AIPC transaction, as well as Post Foods transition and integration costs, and severance costs related to all four fiscal 2010 acquisitions.

The Company also incurred significant costs in fiscal 2009 and 2008 related to the integration of Post Foods following the August 2008 acquisition. The costs include transitioning Post Foods into Ralcorp operations, including decoupling the cereal assets of Post Foods from those of other operations of Kraft Foods Inc. (the former owner), developing stand-alone Post Foods information systems, developing independent sales, logistics and purchasing functions for Post Foods, and other significant integration undertakings. While a portion of those costs are capitalized, the expense portion totaled $32.0 million and $31.3 million in 2009 and 2008, respectively.

For more information about merger and integration costs, see Note 3 in Item 8.

Provision for Legal Settlement

During the fourth quarter of fiscal 2010, the Company recorded a charge of $7.5 million in connection with the potential settlement of certain contractual claims by a customer currently pending in mediation. Those claims arose primarily as a result of the customer's recall of certain peanut-butter based products in January 2009. For more information on the provision for legal settlement refer to Note 16 in Item 8.

Interest Expense, Net

Net interest expense increased $8.8 million or 8.9% to $107.8 million in 2010. The increase is due to a $981.1 million increase in outstanding debt since September 30, 2009. To help finance the AIPC acquisition, the Company incurred approximately $1.1 billion of debt in July 2010 with a weighted-average interest rate of approximately 3.8%. The weighted-average interest rate on all of the Company's outstanding debt was 6.2% at the end of fiscal 2010.

Net interest expense increased from $54.6 million in 2008 to $99.0 million in 2009 primarily as a result of debt incurred related to Post acquisitions and higher interest rates. The increase in interest expense when compared to 2008 is also a result of the timing of the Post acquisition-related debt, which occurred in the fourth quarter of fiscal 2008.

Items Related to Former Investment in Vail Resorts, Inc.

Net earnings in fiscal 2009 and 2008 were affected by non-cash gains on forward sale contracts related to some of our shares of Vail Resorts, Inc. All contracts were settled during fiscal 2009. The contracts included a collar on the Vail stock price and the prepayment of proceeds at a discount (whereby Ralcorp received a total of $140.0 million). Because Ralcorp accounted for its investment in Vail Resorts using the equity method, these contracts, which were intended to hedge the future sale of those shares, were not eligible for hedge accounting. Therefore, gains or losses on the contracts were immediately recognized in earnings. For more information on these contracts, see "Liquidity and Capital Resources" below, as well as Note 7 in Item 8.

In August and September 2008, we sold 368,700 of our shares of Vail Resorts, Inc. common stock for a total of $13.7 million. The shares had a carrying value of $6.6 million, so the transaction resulted in a $7.1 million pre-tax gain. During fiscal 2009, we sold our remaining 7,085,706 shares for a total of $211.9 million. The shares had a carrying value of $141.3 million, resulting in a $70.6 million gain.

Income Taxes

Income taxes declined $51.6 million or 32.9% from 2009, driven primarily by the absence of Vail related gains (as described above). As a result of the American Jobs Creation Act of 2004, the Company has received an additional "Domestic Production Activities Deduction" since fiscal 2006. The effect of this additional deduction was to reduce our federal tax rate by approximately 2 percentage points in fiscal 2010, which will increase to a reduction of 3 percentage points for fiscal 2011. Our blended effective tax rate for fiscal 2010 was 33.5% compared to 35.9% for fiscal 2009. The 2010 rate was reduced by fourth quarter entries to adjust income tax expense amounts from the estimates previously recorded to the amounts reflected on recently filed 2009 tax returns, including the effects of lower than anticipated effective state rates and the final tax effects of the sale of Vail shares. We expect our fiscal 2011 effective tax rate to be approximately 36%.

Income taxes increased significantly from 2009 to 2008 as the Post acquisition helped boost the Company's earnings before income taxes and equity earnings by 82%. Income taxes in fiscal 2009 were $156.9 million, up from $86.7 million recorded in 2008. In 2009, our effective tax rate of 35.9% was essentially unchanged (36.0%) from 2008, as the effect of increases in our blended state tax rates was offset by the effect of the increase in the "Domestic Production Activities Deduction", a federal deduction of 6% of the taxable income from our production activities in the U.S. (i.e., excluding equity method earnings and other gains or losses related to our investment in Vail Resorts, Inc., and excluding our Canadian operations). See Note 5 in Item 8 for more information about income taxes.

Non-GAAP Measures

We use non-GAAP measures including adjusted diluted EPS, base-business net sales, adjusted operating profit, and adjusted EBITDA. These non-GAAP measures are not intended to replace the presentation of financial results in accordance with U.S. generally accepted accounting principles. Rather, the presentation of these non-GAAP measures supplement other metrics used by management to internally evaluate its businesses, and facilitate the comparison of past and present operations. These non-GAAP measures may not be comparable to similar measures used by other companies and may exclude certain nondiscretionary expenses and cash payments.

	Year Ended September 30,		
	2010	2009	2008
Adjusted EBITDA	$ 671.7	$ 625.5	$ 308.7
Interest expense, net	(107.8)	(99.0)	(54.6)
Income taxes	(105.3)	(156.9)	(86.7)
Depreciation and amortization	(166.8)	(144.7)	(99.5)
Impairment of intangible assets	(39.9)	—	—
Gain on forward sale contracts and sale of securities	—	88.2	118.9
Merger and integration costs	(33.1)	(32.0)	(31.3)
Provision for legal settlement	(7.5)	—	—
Amounts related to plant closures	(2.5)	(.5)	(1.7)
Equity in earnings of Vail Resorts, Inc., net of related deferred income taxes	—	9.8	14.0
Net Earnings	$ 208.8	$ 290.4	$ 167.8